

NPS ARCHIVE
1962.06
LYONS, R.

FEDERAL FISCAL ACTIVITIES, 1900-1960;
THE ECLIPSE OF A NATIONAL PHILOSOPHY

ROBERT J. LYONS

LIBRARY
U.S. NAVAL POSTGRADUATE SCHOOL
DUDLEY KNOX LIBRARY
NAVAL POSTGRADUATE SCHOOL
MONTEREY, CA 93943-5101

FEDERAL FISCAL ACTIVITIES, 1900-1960; THE ECLIPSE OF A
NATIONAL PHILOSOPHY

by

Robert J. Lyons
Captain, U. S. Marine Corps

Bachelor of Science, 1951, Saint Peter's College, Jersey City, New Jersey

A thesis submitted to the faculty of the School of Government, Business and International Affairs of The George Washington University in partial satisfaction of the requirements for the degree of Master of Business Administration.

June 6, 1962

Thesis directed by
Arlin Rex Johnson, Ph.D.
Professor of Business Administration

NPS ARCHIVE
1962.06
LYONS, R.

~~Thesis~~

~~Letter~~

DUDLEY KNOX LIBRARY
NAVAL POSTGRADUATE SCHOOL
MONTEREY, CA 93943-6101

RECEIVED: 1964-11-18
JANUARY 21 1965
300-240000-1000000

ACKNOWLEDGMENT

Acknowledgment is enthusiastically and gratefully inscribed for the invaluable instruction and friendship of Dr. A. Rex Johnson, one of a small group whose ideals preclude a total eclipse.

TABLE OF CONTENTS

ACKNOWLEDGMENT.	Page ii
Chapter	
I. THE TREASON OF FEAR; A STATEMENT OF THE THESIS.	1
II. THE PROLOGUE OF THE PAST; A RESTATEMENT OF THE AMERICAN DEMOCRATIC FAITH	7
III. CHALLENGE AND CRISIS; A REVIEW OF THE FORCES THAT SHAPED AN AGE	20
IV. A CONSTITUTIONAL DEMOCRACY IN EVOLUTION, REHEARSAL FOR REVOLUTION, INTERREGNUM AND ECONOMIC CATAclysm; A SURVEY OF FEDERAL FISCAL ACTIVITIES, 1900-1932.	31
V. A LEVIATHAN IN PEACETIME REVOLUTION, WAR, AND WARLIKE PEACE; A SURVEY OF FEDERAL FISCAL ACTIVITIES, 1933-1960.	47
VI. BEYOND TOMORROW, A QUIESCENT OR RENASCENT AMERICAN DEMOCRATIC FAITH: A RECAPITULATION, EVALUATION, REFLECTION AND CONCLUSION	60
BIBLIOGRAPHY.	67

CHAPTER I

THE TREASON OF FEAR; A STATEMENT OF THE THESIS

This is an age of paradox. A general observation of the past sixty years would be that:

. . . It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us.¹

Penned more than a century ago to describe the state of Europe on the eve of the French Revolution, these phrases aptly and incisively chart the historical mainstream of the twentieth century.

Beneficently, this span of time has been marked by unique, virtually unheralded, and incredible scientific and technological progress and economic expansion. Paradoxically, this same era has generated two eruptions of war and an economic catastrophe of cataclysmic and demoralizing proportions. These upheavals have immeasurably affected the spirit of the age. The mood of optimism, complacency and conviction prevalent in the good years prior to World War I, was irreparably shattered by the initial salvo of the guns of August, 1914. After four years of the unrestrained brutality of modern, total

¹Charles Dickens, Tale of Two Cities, National Edition; (New York: Collier and Son Company, 1937), p. 1.

war, this nation turned away from French fields bloodied by a crusade to end war and viewed dejectedly their trophy of disillusionment. Apprehension, uncertainty and skepticism nurtured a temper of reaction. Material prosperity and the pre-war status quo became national goals. However, the security of reaction was fleeting. Prosperity disappeared beneath a wave of economic disturbance of unprecedented magnitude. Intellectual disillusionment was supplanted by emotional alarm as the spectre of poverty cast a long shadow across the land. A decade of depression and want ensued and defied all attempts at peaceful remedy. It required the renewed tread of militarism abroad to instill the first faint stirrings of vigor in a fear-gripped nation. The focus and ardor of an inflicted war and a treacherous human enemy temporarily dispelled the anxiety and fright of the thirties. Despite emerging from this conflict as the strongest nation in the world and the leading guardian and protagonist of freedom, the national sensation of peril was revived and intensified. A depression inheritance, international tension, and the annihlatory nature of nuclear warfare have cultivated an almost irrational search for security in a world of desperate uncertainties, perplexities and anxieties.

These are the forces that have shaped the times. This is the environment that has moulded the American mind. Traversing this vast canvas of crisis and challenge, our national philosophy has been substantially modified and, to a disturbing extent, abandoned. Essentially, the American Democratic Faith is a religion of moderation. The traditional creed which emerged from the formative years into the hostile atmosphere of the twentieth century was pillared upon a foundation of conviction, confidence and

compromise. The basic tenets of this faith were evolved and erected upon this foundation during a period when an expanding physical frontier, geographical isolation and a capitalistic democracy all contributed to an extraordinary sense of national security and formed a pattern of ideals which provided a standard measure for the accomplishments of a nation.

Slowly, rationally, and inexorably, the first decade of the twentieth century, with the attendant stresses of an increasingly complex society, extorted concessions and adjustments from the traditional doctrine. The compelling effects of population growth, urban development, technological advances and complicated economic interdependence were recognized and a harmonious balance created. Reason, faith, and a philosophy of the mean still prevailed, as the traditional principles and institutions and a modern era were concerted without hazarding either component. During the next fifty years, this orderly process was subjected to the overwhelming pressures of the totalitarian effect of wars, the economic insecurity of depression and the international insecurity of two major ideologies in conflict. Anxiety and apprehension mounted; security motivated national behavior. The essence of the traditional doctrine, individual freedom and responsibility, was sacrificed to the illusion of sanctuary provided by the increasing dominance of the national government in human affairs. Faith deteriorated to doubt; moderation capitulated to the extreme of appeasement; confidence succumbed to pessimism. As this mood of fear spread across the land, individuals felt increasingly powerless, and the intervention of the federal government in the nation's economic and social processes proceeded in what may be roughly called geometric progression. The power of the traditional

creed to evoke hope, to command faith, and to endure was corroded by an ominous shift in the moral climate. An environment of fear caused popular betrayal of the traditional national philosophy, and compulsively diverted the American democratic faith from its rational midcourse to a dangerous extreme of expedient guardian statism.

This is the theme. Concisely and simply stated, the general formula to be addressed is that unarrested popular insecurity and fear are inevitably resolved through some form of totalitarianism. More specifically, this thesis contends that the fiscal activities of the Federal government characterized by increasingly burdensome tax levies, a sharply rising rate of expenditures, and a staggering and ever growing debt figure are inherent in a highly centralized guardian leviathan of national government and are a manifestation of the decay of a traditional national philosophy of individual freedom, opportunity and responsibility, limited government and federalism. Furthermore, this deterioration of the American democratic faith has not been a transformation wrought by reason. Rather, the impact of two major wars, a great depression and continuing international tensions by the imposition of fear-inducing economic and international insecurity has distorted the popular mind to the extent that liberty is being bartered for the promise of security.

At this point in time, the impairment of freedom has been primarily economic. The tendency is to concentrate increasing economic controls and planning in the hands of the Federal government in the interest of such appealing terms as welfare, security, humanitarianism and order. Under stress

civilized man has reverted to his original barbarous nature and economic security has become an end rather than a means.

This trend is dangerous; the pendulum is swinging too wide. "As in many countries, impatience with tangible evils substituted democracy for monarchy or oligarchy, a like impatience might someday reverse the process."² Current critical world conditions and the indefinite nature of their duration will impose increasing demands for concessions of individual freedom in order to provide the government with the authority deemed necessary for survival. With each encroachment by government upon this area, government grows more potent and the individual weaker. When freedom is surrendered in sufficient quantity the economic guardian state of today becomes the political servile state of tomorrow. A continuing crisis and a concurrent popular sense of peril will inflict tremendous stresses upon the nation's fundamental balance between freedom and order. If this burden is relieved by a polarized statism rationale and the crisis impatience that has dominated the public mind for the last thirty years, the remedy will provide the most disastrous paradox of the age. At a time of unparalleled opportunity for the realization of freedom, human dignity, and social betterment, this nation, by failing to conserve the remnants of the traditional faith while engaged in a national effort to erect an effective defense against the threat of external despotism, will achieve the permanent internal corruption of the very ideals to be preserved.

²James Bryce, Modern Democracies Vol. I, (New York: MacMillan and Co., 1921), p. 42.

Such a victory of ashes is possible but not inevitable. Democracy fails because of misdirection. This inquiry is an attempt to reassess the course of our national philosophy, by evaluating the impact of an age of crisis and challenge, in order to indicate the danger of government ascendancy and promote a more rational and equitable balance between a rigid creed of traditionalism, that reveres the past as a nostalgic method of eliminating the problems and complexities of the present and the future, and the opposite extreme of a fear dominated philosophy of impatience, action, expedience and relativism which breeds guardian statism and worse. For only "if we could first know where we are and whither we are tending, we could better judge what to do, and how to do it."³ The first step is to define who "we" are.

³Abraham Lincoln, "House Divided," speech at Springfield, Illinois on June 17, 1858; Henry S. Commager (ed.) Documents of American History, Vol I, 5th edition, (New York: Appleton-Century-Crofts, Inc., 1949), p. 345.

CHAPTER II

THE PROLOGUE OF THE PAST-A RESTATEMENT OF THE AMERICAN DEMOCRATIC FAITH

What is our national ethos? What doctrines contribute to the fabric of the American democratic faith?

What then is the American, this new man? He is either an European or the descendant of an European, hence that strange mixture of blood, which you will find in no other country. . . . He is an American. . . who acts upon new principles, he must therefore entertain new ideas and form new opinions . . . from the new mode of life he has embraced⁴

Implicit in the foregoing excerpts from the impressions of a colonial observer, is a significant indication of the proximate genesis of the traditional creed of the American people. The tenets of this secular religion of nationalism spring indigenously from an unprecedented adaptation of an old world legacy to a new world social and physical environment. From the confluence, interaction and synthesis of a heterogeneous heritage of thought and reaction, unique environmental conditions and the rational vindication provided by an age of enlightenment emerged a distinctive and essentially unified national creed which was the cohesive element in the

⁴J. Hector St. John De Crevecoeur, Letters from an American Farmer, L. M. Hacker, The Shaping of American Tradition, (New York: Columbia University Press, 1947), p. 161.

severance of the ties of empire and the establishment of a new nation to secure the blessings of liberty.

While our ancestors sought a new continent, what they found was a new condition of mind. An attempt to definitely isolate and analyze the ultimate sources of and the numberless influences upon this intellectual posture would encompass the entire panorama of western civilization. A task of such monumental proportions is beyond the scope of this inquiry. Therefore, acknowledging the important contributions of the massive historical movements of the Renaissance and the Reformation, this investigation will begin with an analysis of the ideological assets of the colonists as they made their entrance upon the stage of a new world.

Although generalizations concerning the European heritage deposited on the shores of North America are exceedingly difficult to substantiate because of the diverse national and ethnic origins of the immigrants, history concedes a position of primacy to the British influence. Early arrival in the wilderness of the new continent and a preponderance of numbers in the 17th century invested the atmosphere with English conventions during the most formative years of colonial growth. This initial endowment was strengthened by the rising fortunes of the island empire which were reflected in geographic concessions gained by force of arms over her declining European neighbors. Finally, the impact of the English language served to nourish and assure the continued predominance of the British contribution in moulding the basic attitudes and institutions of the new world.

Foremost among the first foundations of a new civilization which the vanguard of English colonists transported in their fragile ships was the Protestant ethic. The Protestant Reformation was a revolt against an authoritarian church. This schism produced a revised cosmic philosophy which became the Christian taproot of the American democratic faith. All men, according to the new formula, were earthly citizens of a divine kingdom and, though inherently sinful, they were equal before the heavenly king. This basic precept of Protestant Christianity, by proclaiming the priesthood of all believers and the individual's relationship to God as his own responsibility, sowed the seeds of equality and individual dignity and responsibility so essential to modern democracy. Furthermore, this new gospel enunciated a principle of restraint which was to constitute a vital element in the democratic creed. In this kingdom of God men were not completely free. As the instrument of divine omnipotence, man is subject to an absolute moral law. This theory is the theological source for the concept of fundamental law, a primary postulate of the great American experiment.

Social formulas are profoundly affected by religious beliefs. As internal strife sent the first colonists scurrying to the new world in quest of religious freedom, these theological ideas dominated their character and provided the frame that determined the direction of all their endeavors, civil, as well as religious. Combining the religious ingredients of equality, individual dignity and responsibility and fundamental law, realizing the corruptibility of man's nature, and utilizing the experience pattern of church organization, the colonists united in a covenant intended

to act as an instrument for civil government. This union of all the people by written compact was the cornerstone of modern constitutional democracy and implanted a modified English rule of law in a new society. Thus, the tenets of Christianity by stimulating the establishment of a government by compact discovered a broader application in the realm of political theory and facilitated the adaptation of certain elements in English law to a frontier environment.

A detailed scrutiny of the compact theory of government introduced by the colonists under the dual influence of religious doctrine and political heritage reveals the origin of two more basic precepts of the American democratic faith: consent of the governed and constitutionalism. Man's equality before God and the individual's responsibility for salvation dictated a belief that all government of right originated from the people, required popular consent and is founded in a written contract between the ruler and the ruled. Self government in religious organizations generated a supernatural sanction for popular sovereignty in civil government in an effort to assure political stability and public order and instill an evolutionary quality in human affairs to make control more feasible and the probability of tyrannical usurpation more remote. Despite the fact that government ordained in this manner could exist only in the wake of public approbation, a belief in the prevalence of human evil contributed to widespread suspicion and distrust of political institutions. This fear expressed itself in the principle of constitutionalism which prescribes that government must operate within the authority of established institutions and law. Governmental authority is consequently carefully defined and limited

by law. This concept is a major theme in the traditional creed.

Impartiality demands that an evaluation of the potency of Protestantism as an ideological force in the new world must be tempered with recognition for the contribution of the colonists' English political legacy. Their motherland provided not only embryonic political antecedents for the concepts of popular sovereignty and a rule of law but, more importantly, acted as the source of a tide of reaction against the authoritarian state. Hostility toward governmental domination whether monarchical or legislative in character, fostered a magnified reverence for local government. Consequently, while the colonists perceived the utility of certain practical elements of their English heritage, such as representative assembly and the separation of the legislative, executive and judicial functions, there was pronounced insistence upon a distribution of power between local and central governments. This formula of home rule emerges in the national philosophy bearing the insignia of "federalism". English law and Martin Luther's dogmas had come to the new world.

The unspoiled expanse of a new continent was a fertile medium for the inscription of both novel and inherited religious and political ideals. Conversely, the spaciousness of opportunity and the availability of land frustrated the transplantation and perpetuation of old world economic and social institutions. The vastness of America challenged both the imagination and resourcefulness of man and the foundation of the established order. Imposition of the tyrannical fetters of feudalism, mercantilism, and the medieval tradition of aristocracy was rendered untenable by a universal

promise of wealth. The availability of untilled acres for the venturesome and the rigors of an isolated pioneer status which demanded qualities of self-reliance and omnicompetence inspired confidence in the individual. Protestant Christianity's gospel of individual worth, the value of toil, thrift, and material acquisition flourished and bestowed supernatural benediction upon individual initiative and profit. Was not a national maxim concerning the sanctity of private property and personal enterprise inevitable among a group of colonists who were fleeing the welter of economic insecurity and social misery that afflicted the masses in their island home? Perhaps it was only just that these colonial expeditions, which were business ventures sponsored by private resources, terminated in an economically democratic environment.

Efforts to master an isolated frontier environment reduced human affairs to individual terms. Home and the family constituted the basic social and economic unit. The function of government was distant and unfelt. As individuals became encapsulated spheres of self interest, an unconscious spirit of individual independence was instinctive and pervasive, although unidentified, unformed and unheralded as a political ideal. A century or more of a pioneer agricultural insularity faded the memory of old world social, political, and economic encumbrances and the conformity of formalized religion into oblivion. The seclusion and provincialism of carving a new civilization in the wilderness created an authoritarian vacuum. The basic drive of the settlers was to attain an economic status beyond the bare pittance afforded their ancestors. Into this philosophical

breach poured the sympathetic doctrines of the evangelical protestantism of the great awakening.

The seed of individualism implanted by dogmatic Protestantism had flowered in self-destructive dimensions on the fertile frontier. While the paling image of state and church authority lacked the vitality to tame the crude and turbulent individualism of the wilderness, the central appeal of evangelicalism was romanticism. In place of the restrictive ideals of moral law, innate sin and predestination espoused by classical Protestantism, the pioneer revivalists preached freedom of the will, ennoblement of the common man and the capacity of the humblest sinner to achieve salvation. Romantic Christianity's central theme of individual freedom from the bondage of evil complimented the surge of the frontier toward individual economic freedom and the lack of external restraint. The social, economic, and religious visions of the new civilization were focused upon the individual, his freedom and his enterprise. Time would make a political reflection of these liberating forces inevitable.

During the 170 years between the landing of the Colonists and the Declaration of Independence, ideological currents set in motion by the confluence of an old world heritage and a new world environment gained in strength and catholicity. Beneath the apparent aimless drift of events coursed a fermenting American democratic faith strengthened in fiber by colonial acquisition of economic resources, political experience, and intellectual acumen, and a policy of salutary neglect by Great Britain. As the edge of the new civilization inched toward the Appalachians, the

agricultural economy accelerated and the base of libertarian freehold farmers expanded and entrenched. Along the eastern seaboard, trade and industry abounded in sufficient measure to constitute a source of economic disturbance to the empire. Colonial government, particularly legislatures, advanced steadily in wisdom and power to achieve a position of provisional sovereignty. Affiliated with these economic and political drives was a vigorous flowering of natural science and free thought. In the detailed sculpturing of a new society in a luxuriant wilderness, the bonds of empire were attenuated to a gossamer consistency. The final slender strand of coercive allegiance, the need for military security, was dissolved by colonial wars. With this fear of local enemies dissipated, the stage was set for a conflict between theoretical loyalty and empirical liberty.

Ingredients for revolution are rare in a climate of economic abundance. Not only were the colonists materially prosperous; they were relatively free of political restraint. This serenity of prosperity and progress was disrupted by a new policy of empire which attempted to impose an obsolete mercantilistic theory of colonial dependency upon the colonies. Such a system of imperial centralization was counter to the economic interests of the colonists, as well as an encroachment upon local rights. This imperialistic blunder aroused the nascent spirit of liberty which had been formed in the colonies by the silent pressure of environment, and transformed it into a militant and eager force. When the initial appeal of the Americans for their constitutional rights as Englishmen crumbled beneath the parliamentary doctrine of virtual representation, a rationale for their cause had to be sought elsewhere. The widespread rejection of

formalized Protestantism and the age of enlightenment had secularized political theory so the colonists resorted to the doctrine of natural rights propounded by John Locke.

Locke's arguments provided a rational basis for the American democratic faith. In utilizing them in the debate with the British government, the colonists concluded that these dialectics effectively refuted the rights of monarchy and aristocracy. As the crisis deepened, there was an increasing crystalization of popular sentiment for a republican state. Finally, British armed coercion threw a mantle of patriotism over their philosophy and the colonists responded with shots heard round the world which have never ceased to echo. With the embodiment of this philosophy in a program of action outlined in the Declaration of Independence, Americanism superceded colonialism. The American democratic faith was a reality and a new nation was born. A revolution had been consummated and the war simply confirmed it.

With the British crown deposed as the source of governmental authority a new structure of government was needed. Contriving to rationalize the concepts of colonial experience and fashion the democratic faith into a workable form of government, the founders of the new state judiciously selected tools available in the political theories of Locke, Hobbes and Montesquieu. Familiarity with Locke's doctrines in justifying their revolt and with the practical application of the religious compact to civil affairs caused them to accept the convenience of Locke's fundamental position. Men were born with inherent rights which they voluntarily

relinquished when they formed a social contract for the maintenance of order and the preservation of property, and this superior authority that was created was endowed with only specific powers assigned to it by the contract. However, recognizing the validity of Hobbes' psychology of human evil, Locke's principle of unitary government was rejected. Human nature was untrustworthy; government must be subjected to further limitations in the form of restraints on those exercising power, as well as protections for the individual liberties as proposed by Montesquieu.

This rationale found its first expression in the legalization of the ad hoc government of 1776, under the Articles of Confederation during the period of actual conflict. Significantly perhaps, the authors erred on the side of liberty in devising a balance between order and freedom. The resulting structure was too weak to endure. Yet, despite the fact that the fate of republican government might hang in balance, the movement for constitutional reform was restricted to achieving only a government of sufficient strength to be operable. This objective was realized in the Constitution which successfully reconciled liberty and government. The governmental structure that was established substantially reflected the tenets of the American democratic faith. A written constitution composed by representatives of the people was the instrument of government and the fundamental law. Although the new government operated compulsively upon the individual, it was not a unitary government. It lacked complete sovereign power and was supreme only in a sphere which was limited and defined. The states were co-equally supreme and not subordinate, and possessed the residue of sovereignty not enumerated under the powers of the Federal government. Personal rights were protected and additional

limitations placed on the Federal government by means of a system of separated powers and checks and balances. Consent of the governed was implicit in the rule of law. Armed with this compromise between individual rights and governmental power, the new nation faced the challenge of the future.

The grand anthem of the American democratic faith which was stamped with popular approval by the Revolution and the Constitution thrust itself deeper into the thoughts and emotions of the people during the 19th century. Revolutionary political rights were to be amalgamated with parallel economic principles which conceived of liberty as freeing individual enterprise from the restraints and compulsions of the government. The free economics of a new world environment had led to political democracy which, in turn, was to be expressed in economic terms. As a century of expansion and exploitation opened, the mood of the colonial period was rapidly disappearing. A dynamic American spirit which was optimistic, exuberant and visionary replaced the dour, static, realistic and empirical mind of the Revolution. Custom succumbed to innovation as rational democracy gave way to the ideals of a romantic concept of the national mission and destiny.

The first half of the new century was a remarkable period of westward expansion, population growth, southern agricultural and commercial development and northeastern industrialization. Westward migration scattered a relatively small number of people over a vast area lacking in the means of communication. The rival goals of the various provincial economies generated sectional conflict. Capitalistic enterprise in its embryonic stage focused on the individual entrepreneur. All of these conditions served to reinforce the elements of local democracy, state autonomy and individual

freedom in the traditional creed. Down to the fall of Fort Sumter, adherence to the American democratic faith provided the harmony of solidarity in the form of a national mission during a period when discord in sectional interests strained the bonds of union. In the Civil War, northern arms imposed the will of the majority upon a dissenting segment of the governed and resolved a five decade debate over the fundamental nature of the union in favor of Webster's ". . . Liberty and Union, now and forever, one and inseparable!"⁵

While the irrepressible conflict confirmed the sovereignty of the federal government, it did not repudiate the doctrine of federalism. The political system of the United States was an "indestructible union of indestructible states."⁶ The nation was a true sovereign organism but the states remained co-equal and the division of sovereignty was a subject for popular mandate. Of greater practical importance, the war demonstrated the effectiveness of the federal government as an instrument of protection in a crisis. This attribute was to invite exploitation in an age of continuing challenge and crisis which would begin in the short space of fifty years.

During this intervening half century, a gigantic economic revolution transformed the United States from an agrarian republic into the world's leading industrial nation. This development was inspired by matchless

⁵Samuel E. Morrison and Henry S. Commager, The Growth of the American Republic, Vol. I. (New York: Oxford University Press, 1942) citing Daniel Webster's "Reply to Hayne," p. 481.

⁶Texas vs. White, 7 Wallace (U. S.) 700 (1869).

natural resources, unprecedented technological progress and expanding markets, home and abroad. A modern urban industrial society emerged with complex social and economic problems to challenge the resourcefulness and adaptability of the traditional creed in the twentieth century. The American democratic faith endured through the declining years of the nineteenth century substantially unchanged except for the introduction of the positive ideas of individual responsibility and humanitarianism, contained in the apologetics of a gospel of wealth. Verification of the integrity of the national secular religion at the turn of the century is evident in a constitutional revolution. A legal coupling of the doctrine of vested rights to the due process clause, which served as a substantive limitation upon the power of the state to regulate private property in the interests of public welfare, reflected the prevailing philosophy of the sanctity of private property, the rights of the individual, the value of opportunity, and of a natural evolution of self interest and self assertion, within broad legal limits, into a beneficent social order to achieve the destiny of the nation. The government was to protect the competitive world and foster it by eliminating abuses but not to cripple it with a plan for common collective action.

The democratic faith had proved itself a religion of harmony and progress. Compromise had harnessed the antagonistic forces of fundamental law, individual freedom and nationalism into a coherent philosophy that insisted upon a balance between liberty and authority, and proclaimed man as the master of his destiny. With the optimism and conviction of this faith, the nation faced the dawn of a new century.

CHAPTER III

CHALLENGE AND CRISIS; A REVIEW OF THE FORCES THAT SHAPED AN AGE

A new century's first light revealed the crusading hosts of reform. A presidential assassin's bullet fired by a demented anarchist signaled an organized assault upon an established order which constituted a corrosive challenge to the traditional American democratic faith. This was not a spontaneous revolt. The twilight decades of the 19th century had periodically resounded to uproars of dissent voiced by agrarian and labor elements discontented with the excesses of capitalism and the depressed condition of their segments of society in an incomparably rich nation. Recurring panics and depressions, and increased poverty and injustice in the final years of the fading century materially reinforced these isolated uprisings. The tocsin of concerted action was sounded at the Democratic National Convention in 1896, by William Jennings Bryan, an orator of consummate ability. Insisting that mankind would not suffer the fate of the messiah at the hands of an economic oligarchy, he announced, "we beg no longer; we entreat no more, we petition no more . . . we defy them!"⁷

⁷William Jennings Bryan, "Cross of Gold Speech" of July 8, 1896, Commanger, Documents of American History, Vol. II, p. 174.

Humanity's cause had become a national issue. The voices of protest had become a thundering movement of collective effort and constructive measures and could no longer be denied by the entrenched forces of negation. This was to be the era of progressivism.

The progressive movement which dominated the first fifteen years of the twentieth century was a potpourri of humanistic theories and beliefs designed to remedy the political economic and social problems imposed by massive urbanization, monopolistic corporate industrialization, and political corruption. Imbued with the dynamic crusading spirit of national destiny renewed by the taste of imperialism experienced in the nation's emergence as a world power, the tide of progressivism sought to insure that the new machine civilization reflected the traditional principles of political freedom and economic opportunity. The political objective was to be achieved by an expansion of democracy to place greater control of the governments within the power of the people through the devices of legislative initiative and referendum, direct election of senators, recall, a secret ballot and the direct primary. With all levels of government rendered more responsive to the popular will, the economic goal could be safely realized by government intervention to arrest abuses that tended to curb competition and promote the concentration of economic power.

Progressivism was a philosophy of restoration not revolution. Its ideology of reform was premised upon an acceptance of the traditional creed of individual freedom, dignity and responsibility, equality of opportunity, and the sanctity of private property, as a national ideal and the belief that the new conditions of an industrial and urban society were perverting the

gospel of the individual and the promise of his well being in a profit economy. An application of the doctrine of restraint, which had been employed so successfully in structuring a government, to centralized economic power would restore the shape of society to the dimensions of the ideal and revitalize the traditional tenets of the American democratic faith in the new world of the city and the factory. Thus, the idea of public intervention was introduced not to overturn the traditional principles but to conserve them by rational adaptation within the existing economic and political framework. The goal was justice not benevolence. Fear would soon distort this theme and the reasoned policies of progressivism which proved a healthy corrective remedy would be advocated as a patent nostrum to be taken in greater and greater doses as a panacea for all social and economic afflictions.

The election of 1912 was the culmination of the struggle by the forces of reform. Woodrow Wilson, the scholarly idealist and expert in government, was empowered to implement the program of new freedom which he referred to as the traditional creed clothed in the unconquerable strength of modern America. Wilson's philosophy proclaimed that competition and free enterprise must be stimulated in order to endow the individual with new freedom. This effect was to be achieved by policies which would destroy the restrictive economic shackles imposed by a situation where

. . . a comparatively small number of men control the raw materials, the water power, the railroads, the larger credits of the country, and, by agreements handed around among themselves they control prices.⁸

⁸Alfred H. Kelly and Winfred A. Harbison, The American Constitution, (New York: W. W. Norton and Company, 1948), quoting President Woodrow Wilson, p. 645.

This war against the industrial aristocracy was not to be characterized by a steady expansion of the powers of the national government. As a staunch advocate of constitutional government, Wilson deplored the creation of new spheres of federal sovereignty as a perversion of its limited and derived nature which would eventually nullify the substance of the federal concept while preserving the form. The delegated monetary and tariff powers were to be the government's principal weapons in the attack on economic concentration. In accordance with this formula, public intervention was not the sole mandate of the Federal government. The Constitution distributed the responsibility to all levels of government. However, the reluctance of vested interests to concede to the demands for reform prompted full scale litigation that stymied the efforts of local government to intercede in the area of economic behavior. This twilight zone or gap between federal and state authority posed an increasing challenge to Wilson's scheme of conducting the reform program in conformity with traditional doctrine. This dilemma made some accommodation of principle mandatory, but before a rational solution was forthcoming war abruptly terminated the era of domestic reform and crisis expediency suppressed a rational analysis. The lights of faith, optimism, confidence and reason were being extinguished, never to reappear in our time.

In April of 1917, martial bugles sounded throughout the Republic summoning the energies of the nation to the task of saving the world for democracy. As "champions of the rights of mankind . . ." America was to be ". . . privileged to spend her blood and her might for the principles that gave her birth and happiness and the peace which she has treasured . . . and

make the world itself at last free."⁹ This was a holy and righteous war waged to achieve a world victory for the American democratic faith. Depicted in terms of a morality play, with the forces of triumphant good questing the Holy Grail of eternal peace and universal liberty, the nation exalted in the great crusade. Abstract symbolism and soul stirring ideals, while inspiring, are not formidable as practical instruments of war. More realistic measures are necessary to construct a military colossus to achieve final victory. Idealistic visions obscured the full impact of modern war upon the nation's political, economic, and social order. Law after law, justified by the wartime emergency, extended federal control into the sphere of sovereignty formerly reserved to the states and individual liberties. Regulation of food and its price, the operation of certain industries, the nationalization of railroads, the censorship of the mails and the press, and the control of radio and cable communication were just a few instances of federal usurpation of power dictated by the imperative pressures of modern war. The banners of the American democratic faith, borne so proudly on glinting bayonets in foreign fields, were temporarily humbled at home. This environment provided a fertile base for such radical proposals as federal old age pensions, public power control, minimum wages, and full employment which, though denied, were a taste of things to come. A dress rehearsal in the expansion and centralization of the authority of the national government was executed to the strains of a crusader's march and accustomed the citizenry to a process which would become ritual fifteen years later.

⁹Woodrow Wilson, "Speech for Declaration of War," on April 2, 1917, Commanger, Documents of American History, Vol. II, p. 312.

Time and continuous effort dim the emotional fervor of the most enthusiastic idealists. With the successful conclusion of the war in Europe, the nation had been crusading for almost a generation and the populace was morally and spiritually weary and mentally confused. Seemingly endless casualty lists and the annihilation of war overawed the individual and reduced his status to insignificant proportions. Returning doughboys were burdened with a harvest of gruesome memories: trampled wheat fields dotted with the silent recumbent figures of comrades; fields of white poppies spotted with American blood; row on row of simple white crosses marking the victims of modern savagery; the mud, filth, cold and misery of trench warfare; and the soul shattering realization of the utter waste of killing and being killed. The carnage of war destroyed popular belief in the concept of a paradise found which motivated the national crusade. The high flame of patriotism and moral enthusiasm was flickering into extinction amid the ashes of disillusionment. The spirit of the day presaged an era of reaction.

"America's present need is not heroics but healing; not nostrums but normalcy; not revolution but restoration."¹⁰ This slogan of the Republican presidential candidate in 1920 keyed the attitude of post-Versailles America. Disillusionment, fear, skepticism and nostalgia infected the atmosphere. Fear of the forces of turbulence and upheaval, evidenced in the excesses of Russia and in domestic strikes, lawlessness and anarchistic activities, combined with a skepticism regarding the new world

¹⁰Kelly and Harbison, The American Constitution, quoting President Warren G. Harding, p. 679.

order to arise from the war caused a popular rejection of reform ideals. There was a distinct longing to return to the good old victorian days so an individual could reaffirm his prowess, confidence and value. Americans wanted to be permitted to pursue private affairs without any disturbing interference by public affairs. A wave of post-war prosperity quenched the last embers of idealism and strengthened irresistibly the tide of reaction. The American democratic faith was swept along by the surging currents of reaction and prosperity. The free play of creative individual initiative was reasserting itself and was held responsible for prosperity. Government controls were considered bad because they interfered with the flow of wealth and material welfare. Events appeared to support this philosophical viewpoint. Living standards rose steadily, economic opportunities expanded, and the flow of consumer goods was a deluge. The sprawling giant of the American economy stood on the brink of unprecedented prosperity. All restraints, whether political, economic or social, must be revoked lest they hinder the full flood of unparalleled plenty. The unmanaged traditional creed as the source of the eternal verities of the good society was uncrowned king of the nation. The lessons of progressivism were effaced by a dream of a povertyless age. Immoderation was a universal theme.

Storm signals were flying even during this decade of deliberate excess. Agriculture was over-expanded and in a partial state of collapse. Industrial efficiency increased, but prices did not reflect these savings. Wages rose, but not sufficiently to absorb capacity. Technological improvements boosted the level of unemployment. Industrial combination

mushroomed. Corporate surpluses poured into the securities market and precipitated an era of skyrocketing stock and bond prices. Americans were too busy making money to heed the ominous signs of a ghastly economic nightmare. The storm struck with panic inspiring fury.

In October of 1929, stock prices, which had been dizzily rising while business activity subsided, wavered, broke in a wild panic, and plummeted downward inaugurating an economic crisis which would unrecognizably scar the traditional national philosophy. The slump in stock prices was accompanied by an infinitely more serious decline in the volume of business activity. Lagging production produced industrial stagnation. Lagging profits brought attempts to restore corporate income by cutting wages and reducing the labor force. Spreading unemployment and drastically reduced personal income generated a deep-seated concern for the future to which was added the unnerving fever of bank failures. Prosperity was a state of mind, as well as an economic condition. When it faltered the psychological climate changed. As the economic debacle worsened and endured, initial shock and bewilderment spawned a gnawing fear and a national feeling of desperation. From the depths of depression, a despairing nation seized upon the cool and confident phrases of the prophet of the New Deal and initiated an era of transcendent influence and control by the federal government. The searing ordeal of a depression crisis had produced a revolutionary response as the slings and arrows of want, hunger and poverty assaulted the traditional creed and relegated it to a position of reverence in word, but not deed.

A guarantee of action by the disciples of new dealism unleashed a patchwork program of expediency designed to reform, relieve, and stimulate the economy. Based on the thesis that the national welfare required extensive controls over business, finance and agriculture, as well as the positive utilization of government power to insure economic and social well-being, the new deal tremendously expanded federal authority at the expense of the states and the free individual. The total effect of this philosophy and its helter skelter unreasoned implementation was to install the federal government as an unchallenged manager of human affairs and substantially alter the fundamental nature of constitutional democracy. The results of this new order were less than miraculous. Whirlwind activity promoted a spark of hope in an economically insecure population. Perhaps, the new program averted the full force of the disaster. Overall, however, the system did not succeed. Recovery did not occur until the shadows of war fell across the face of Europe.

Before this experimental venture in positive statism could be rationally examined and analyzed, an increasingly menacing march of events in the world remedied its deficiencies and inflicted the weight of international tension atop that of economic insecurity already burdening the national morale. Japan was extending the Far Eastern co-prosperity sphere in an ill-boding pattern. Hitler's Germany was repudiating the Versailles Treaty and rearming. As the storm of war enveloped all of Europe, this country derived the economic benefits of defense preparations and provisioning the allied armies and the draught of depression was dissipated. Concurrently dispelled was the myth of continental isolation

and the nation was relentlessly drawn closer and closer to involvement in the war. Finally, a day of infamy propelled America into a full-scale struggle for survival. Almost overnight, the nation was regimented to meet the greatest crisis of its existence. In the interests of national safety, every essential activity of the people was regulated from Washington, D. C., by a government board or administrator. War superimposed a tremendous growth in the size, authority, and complexity of the federal government upon that which had occurred under the New Deal. Authoritarian government was becoming deeply ingrained in the national consciousness by the totalitarian pressures of modern war. Even the principles of constitutional democracy and individual liberty which were evolved to protect society in just such emergencies were subordinated to military necessity and their vitality seriously impaired. Only a reign of peace and prosperity could insure the restoration of a proper balance between freedom and order.

An August day in 1945, brought a final cessation of formal hostilities but not real peace. Ten days before, the traditional concepts of war, peace, and national defense were obliterated by an atomic detonation. This manifest scientific and technical superiority of the United States inspired fear in many parts of the world. Particularly in Soviet Russia, this development could well have promoted the belief that the uneasy alliance of World War II would be dissolved with the disappearance of a common enemy and these new forces of destruction would be used to assail the Communist ideology. As the Russians bent every effort to achieve weapons superiority, the Soviet power loomed larger and larger upon the world's horizon. All human activity was calculated in the relative strengths of Russia and the

West. International conflict ceased to consist of periodic and temporary efforts to repel aggression, and instead, became a continuous sustained struggle, varying only in intensity, to insure survival. Reluctantly, as the leader of the West, this nation passed measure after measure for the relief, rebuilding and rearmament of the non-Communist world. Such a commanding role in world affairs amidst unrelaxed international tensions demanded the postwar perpetuation of a commanding government at home whose position is further enhanced by a continuing prosperity which is in no small measure attributable to the continuing state of crisis.

This is the clear and present danger. Intensified preoccupation with security and survival and its attendant crisis, impatience and hysteria for an indefinite period, constitute an insidious threat to the nation's free institutions already weakened by the impact of two wars and a depression. In failing to nourish the orthodoxy of the democratic faith during the past half century, the American people have allowed their traditions to wither and their ability to cope with the stresses of the present crisis without automatic, habitual, and unsubstantiated recourse to more authoritarian government has been reduced. These forces which have shaped our times and are directing our future course must be evaluated before more arbitrary sacrifices of individual freedom to the state transform the promises of national security into the chains of a national prison. Nowhere are indications of this threatening evolution more pronounced than in the fiscal activities of the federal government.

CHAPTER IV

A CONSTITUTIONAL DEMOCRACY IN EVOLUTION, REHEARSAL FOR REVOLUTION, INTERREGNUM AND ECONOMIC CATAclysm; A SURVEY OF FEDERAL FISCAL ACTIVITIES, 1900-1932

Government activities and finances mirror public philosophy. As the nineteenth century waned, the glitter of the American democratic faith, previously described, was apparently undimmed as the nation boomed under a new wave of prosperity, production, industrial expansion and confidence which exceeded all previous levels. Working hours were shorter, average income was higher and the surge of business activity held bright promise for the future. The traditional creed was repeatedly validated. Growing from comparative poverty to immense national wealth, the young republic's boundaries included an area almost as large as Europe. The nation had risen from international impotence to register a resounding triumph over the decadent Spanish monarchy and emerge into a place in the sun of international affairs. The destiny of America was assured.

In this atmosphere of optimism and faith, there existed little sentiment for the expansion of the limited mission of the national government. Isolated efforts during the last quarter of the nineteenth century to promote greater federal intervention in the nation's economic and social life were

greeted with distrust and realized little, if any, success. The Sherman Anti-Trust Act which was an attempt to regulate the practices of industrial combinations was ten years old and withered from lack of employment. The Interstate Commerce Commission had been in existence more than a decade without effectively regulating rail rates. Endeavors to revise the federal tax structure had been crippled by the courts. Government transfers of money to the public consisted mainly of veterans' pensions. Departments of Commerce or Labor of cabinet status were nonexistent. This situation reflected the national attitude that "though the people support the Government the Government should not support the people."¹¹

This popular support was rendered only after careful scrutiny of the costs of government and the methods of raising revenue to meet them. The expenditures of the federal government which averaged a half billion dollars annually were continuously examined in the interests of economy, while tariffs which constituted the major source of federal revenue were constantly adjusted to insure a balanced budget. The national debt of one billion dollars was a matter of serious concern and the subject of annual appropriations for its retirement.¹² In the achievement of its delegated mission, the federal government must not be permitted to become an oppressive burden on the nation's economy. With the successful challenge to Spanish

¹¹Paul Studenski and Herman E. Krooss, Financial History of the United States, (New York: McGraw-Hill Book Company, Inc., 1952), quoting President Grover Cleveland, p. 207.

¹²U. S. Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1957, (Washington, D. C.: Government Printing Office, 1960), p. 711.

domination concluded as the old century drew to a close, federal expenditures declined 20% and the government contracted to peacetime administration.¹³ Demands for increased government action attributable to population growth, urbanization, industrialization and improved transportation were directed to the state and local governments. The compass of federal activities continued to be conceived narrowly, and confined largely to the traditional powers and duties of postal service, defense and international affairs.

After the second inauguration of McKinley in 1901, a series of episodes dramatized for the populace the undesirable effects an unqualified, undisciplined and in some cases, an extremely distorted partisan application of certain tenets of the traditional creed was inflicting upon the more basic and personal institution of individual liberty. The creation of the United States Steel Corporation, the legal assaults on trusts for their ruthless extermination of competitors and the revelations of the muckrakers concerning business' sordid relations with government and exploitation of the consumer produced a measure of disillusionment in and a rational reappraisal of the democratic faith. A compromise in conflicting principles was necessary to prevent economic greed under the guise of individual initiative and self-reliance from encroaching upon human liberty from the right.

Hopefully, a nation which had no desire to be the ward of guardian big business looked to local government to banish the excesses of the period. Unfortunately, the invasion of economic tyranny in the form of trusts, business

¹³Ibid.

exploitation and political manipulation was already too powerful for the capabilities of the states. A profusion of laws, the interstate expansion of industry and the confusion of many conflicting legal decisions effectively obstructed local regulatory activity. Thus, the existence of this unpoliced twilight zone inhabited by the iniquitous invisible empire of business which was eroding the doctrines of economic freedom and individual liberty stimulated a popular

. . . growing awareness that the federal government could not remain the simple mechanism with limited duties that it was during most of the 19th century. To an increasing extent the role of government was construed to be a facilitating one....¹⁴

This new role required limited regulation of the retarding practices of business which would reactivate the environment and opportunity where individual capacity could realize its greatest potential. This was the hope of progressivism.

If fear is the catalyst of revolution, hope is the leaven of reform. Progressivism was a philosophy of hope. Under this motivating influence, the ferment of change between 1901 and 1914 was gradual and disciplined. Prosperity further restrained the tides of revision and innovation by strengthening popular reverence for the status quo and the proven postulates of the past. Progress was a new concept. Its formulas had to be carefully analyzed to determine their total impact before they could be substituted

¹⁴Louis H. Kimmel, Federal Budget and Fiscal Policy, 1789-1958, (Washington, D. C.: The Brookings Institution, 1959), pp. 82-83.

for the cherished traditional creed. Governed by this spirit of moderation, federal fiscal activities during this period were neither momentous nor a drastic alteration of historical trends. A non-alarming increase in federal expenditures of four per cent annually reflected the slow and studied expansion of federal authority into new areas of national interest. To facilitate the role of limited arbiter of economic activity, a Bureau of Corporations was created in the national government in 1903 to investigate trusts while an independent Department of Commerce and Labor joined the other major divisions in the executive branch. Despite the fervor and publicity of trust busting, these agencies were more informational than regulatory in character.

Another relatively novel issue of federal concern was the depletion of natural resources. A separate Forestry Service appeared in the Department of Agriculture in 1906, financial grants in aid were made to the states for agricultural experiment stations and colleges, and reclamation and river and harbor projects were appropriated with increasing frequency as the federal government attempted to stem the deplorable exploitation of the nation's timberland, soil, and water reserves. In the realm of social welfare, unscrupulous business practices which preyed upon the public resulted in the Pure Food and Drug Act in 1906. All of these internal reforms were severely limited in size and scope. During this period the vast bulk of federal expenditures continued to be devoted to national defense and international affairs as a modern Navy was developed, the Panama Canal constructed and more and more veterans became eligible for pensions.

As these expenditures grew from a half to three quarters of a billion dollars during the first decade of the century, revenues failed to keep pace and annual deficits were incurred in half the fiscal years involved.¹⁵ When the panic and depression of 1907 swept the country, the federal government began to levy a corporation income tax as an excise and submitted a constitutional amendment to the states which would authorize the imposition of the general income tax so long thwarted by the courts. Until the outbreak of World War I, and the resulting reduction in tariff revenues, the corporation tax of one per cent on net income was sufficient to remedy the federal operating deficit. Thus far, the trend of government activities and finances displayed no trends of a tradition shattering nature.

As a result of the panic of 1907, and the persistent depression, the tempo and volume of the clamor for reform intensified, became insistent, and reached a crescendo in the 1912 election of Woodrow Wilson. As the leader of the forces of idealism, Wilson began a far-reaching systematic transformation in the federal government which could be termed liberal, but hardly radical, and reflected a strong national sentiment for the positive establishment of a balance between big business and government that would effectively promote economic democracy and individual free enterprise. Investigations by the Pujo Committee in 1912 had crested the wave of national resentment against the financial and industrial oligarchy. Federal attacks upon these vested interests were conducted within the limits of traditional

¹⁵U. S. Bureau of the Census, Historical Statistics of the United States, p. 711.

and fundamental federal authority.

The centralization of private monetary power was reversed by the creation of a national banking system under the Federal Reserve Act of 1913. The Clayton Anti-Trust Act of 1914 provided the federal government with more potent weapons for the war on business monopoly, and the Federal Trade Commission was established in 1914 to administer antitrust legislation. The Federal Farm Loan Act of 1916 was designed to further weaken the hold of the financial over-lords by granting relief to the farmers through federal control of rural credit. Finally, the Underwood Tariff reduced rates in order to introduce international competition and weaken the position of the trusts. Wilson's policies were a comprehensive attempt to perpetuate the tenets of the American democratic faith by reorienting the new economic order through an adaptation of the traditional doctrines to the new circumstances of an industrial society. This program was, essentially and constitutionally, conservative and would prevent the individual from being crushed by either big business or big government. The process was one of evolution not revolution.

During the first Wilson administration, while the reform process was in progress, in spite of increased government regulatory activity, federal expenditures remained fairly constant near the three-quarters of a billion dollar mark. Receipts to support these expenditures declined. The reduction of tariff rates and the onset of war in Europe, with a slackening of international trade, caused an unanticipated loss of tariff revenues. This situation prompted the utilization of the recently ratified income tax amendment and the imposition of a personal tax levy. These taxes applied

to a relatively small number of individuals at relatively low rates and, initially, supplied less than five per cent of the national revenues. This insignificant beginning was little indication of the enormity of the power vested in the federal government by the 16th amendment which would result in complete dominance over the nation's fiscal resources, and facilitate the expansion of government activity and authority. The power to tax is the power to destroy, and the income tax would, in time, materially contribute to the destruction of constitutional democracy. The First World War was the start of this drastic change.

America's entry into the war in April, 1917, abruptly terminated the domestic reform program and precipitated a dress rehearsal in the activities and finances of the federal government which provided a pattern for a peacetime revolution that would occur fifteen years later. Under the impact of total war, the natural impulse of the nation was to look to the government for salvation. The exigencies of successful prosecution of the war required an insertion of large scale controls and assistance in the nation's economic and social life that enhanced the influence of the federal government and accustomed the nation to an enlarged conception of federal authority. The War Industries Board mobilized industrial production. The War Food Administration controlled production and consumption of food. The War Finance Committee directed industrial expansion. Rail, telephone and telegraph systems were nationalized and private investment was regulated. The Federal Reserve System became an adjunct of the Treasury Department. Independent public corporations invaded every field of private endeavor from

housing to shipping. The federal government centrally controlled and planned the economy, and between 1916 and 1919, federal expenditures skyrocketed from three quarters of a billion dollars to almost nineteen billions.¹⁶ Ten to fifteen per cent of the total funds were expended to support the vast complex of government bureaus and boards. Although wartime taxation reached unprecedented levels with a maximum tax of over 70% on incomes greater than \$500,000, and was viewed as confiscatory, the national debt climbed to \$26.6 billion dollars and annual interest payments alone exceeded total federal expenditures during 1916 by twenty-five per cent.¹⁷ War perverted the rationale of progressivism and this pattern of government activity and finances made a deep imprint upon the national mind which no subsequent return to the traditional creed could completely eradicate.

War had converted the energies of domestic reform to the goal of international reconstruction. The nation had temporarily accepted the expansion and centralization of power in the federal government and the burden of its fiscal support in the interest of the great democratic crusade. This spirit did not survive in the postwar world. The already thinning ranks of idealism, revolted by the horrors of modern war, were completely routed with the rejection of the Versailles Treaty. Moral dedication to a new world order was demobilized with the war effort. Mounting cynicism about the capacity of other nations to adopt the traditional creed and the illusion of military security promoted by two great ocean barriers fostered a growing

¹⁶Ibid.

¹⁷Ibid., pp. 711, 716, 718.

feeling of isolationism, reaction, and national and individual self interest. With the abandonment of reform and reconstruction as national ideals, the major instrument of these visions, a centralized national government could be replaced by state and local management which had characterized the prewar years. The nation's capacity for government regulation and planning was exhausted, and in the first postwar election the Wilson administration was decisively defeated. Thus began the interregnum of normalcy.

The philosophy of normalcy and prosperity was fundamentally laissez-faire. The scope of federal activity was restricted, and private property and free enterprise were protected against unreasonable government interference. As wartime controls were abolished, the expenditures of the federal government rapidly declined from nineteen billion dollars in 1919 to six billion in 1920, and to a level of three and a half billion in 1922, where they remained through the year 1929.¹⁸ This last figure was still a 300 per cent increase over the prewar year of 1916. The major portion of this staggering increase was due to a decline in the purchasing power of the dollar, higher interest payments on the national debt, and greater spending for national defense and veterans benefits, and not to any parallel expansion in federal functional activities. Despite this high level of peacetime expenditure, sharp tax reductions and a comforting program of debt retirement, of almost one-half billion dollars annually, were possible. Economy in both the activities and finances of the federal government keynoted the decade of the twenties.

¹⁸Ibid., p. 711.

In spite of the prevailing mood of laissez-faire, conservatism, and economy, this era witnessed a few weak expansions of federal authority and a 100 per cent increase in federal functional expenditures over the prewar period. A Federal Power Commission of little practical value was created in 1920 to nominally regulate power plants on the navigable streams of public lands. The advent of radio led to a Federal Radio Commission in 1927 to control transmission. Agriculture was in a chronic state of depression which eventually resulted in the establishment of the Federal Farm Board in 1929 to assist in the effective marketing of farm commodities. There were increased public demands for countless informational, educational and research services by the federal government, for conservation of natural resources, and for grants-in-aid to the states for roads, educational and vocational services, rural sanitation, and agricultural extension services. These developments undoubtedly reflected a slight modification of the national concept of the character of the federal government as a result of the experience of the war, when the nation became conditioned to dependence on the federal government, and also, the superior ability of the federal government to secure the necessary funds to satisfy new requirements. This change in the popular attitude and the vastness of federal fiscal resources signified that, while the reduced level of federal fiscal activities was attributable to a pronounced contraction in federal authority and regulation which permitted the gigantic industrial, commercial and financial expansion during this age of apparently limitless prosperity, and while tremendous increases in state and local government expenditures and debt indicated a

further widespread decentralization in government operations and finances, the well developed channels of federal expansion and centralization carved by the totalitarian pressures of war remained in existence and were being utilized if only to an inappreciable extent. The machinery for peacetime revolution stood in readiness awaiting crisis ignition. The wait was not prolonged.

This unprecedented economic crisis was progressive and not instantaneous. Initiated by a practically unnoticed decline in the indices of business activity and prices during the summer of 1929, the first phase was one of disbelief as downward sloping stock prices pitched over the peak of prosperity and crashed to panic infusing lows in the fall of the year. As the first months passed after the crash and the severity of the securities' slump was somewhat tempered, the future was viewed without visible alarm. The stock market crash would be contained because the economy was basically sound. The Hoover Administration saw no cause for apprehension, and optimistically, in the Budget Message of 1930, the President recommended and obtained substantial tax reductions. Persuasion and counseling of industry would maintain wages, prices and production. The federal government would assist by providing credit for business and agricultural borrowers and tariff protection, but private initiative would restore confidence without any extension of bureaucracy through increased government expenditures. Therefore, the annual Treasury surplus common to the prosperous twenties would continue to mount and temporary cuts in personal and corporate taxes were advisable to stimulate spending. The American System was the prescription for recovery.

By the end of 1930, the second phase of the crisis was in progress, and disbelief had deepened to dismay. Industrial production had fallen almost 20 per cent.¹⁹ The wholesale price index was off almost 10 per cent.²⁰ National income had sagged from 87.8 billion dollars in 1929, to 75.7 billion as unemployment figures almost tripled.²¹ The dismal process known as depression was on the march. The program of moral suasion was having little effect as private enterprise failed to peg the economy. Consequently, the recovery efforts of the federal government became wider and more direct. There were slight increases in expenditures for the construction of public buildings, river and harbor improvements and self-liquidating reclamation projects, as well as direct interest-bearing loans to corporations and local governments. It was a very businesslike program which included tax increases in an attempt to balance the federal budget in the face of declining revenues because of reduced national income. The philosophy of recovery continued to firmly adhere to the traditional creed that avowed; government was "to protect the people" and not to "regiment the population into a bureaucracy to serve the state."²²

The crucial period when these moderate policies might have checked the forces of collapse had passed. During 1931, dismay dissolved into demoralization as the depression intensified. American investments abroad

¹⁹Ibid., p. 409.

²⁰Ibid., p. 116.

²¹Ibid., pp. 73 and 139.

²²Studenski and Krooss, Financial History of the United States, quoting President Herbert Hoover, p. 375.

had tapered off after the crash of 1929, and the protectionist tariff of the same year was bringing international trade to a standstill. Europe was in the throes of financial crisis. American credits in Europe were frozen, and, as instability persisted, the foreign and the domestic bond market collapsed and with it over 2000 American banks.²³ National income continued to fall as unemployment became a new state of being for millions. Savings disappeared, either in bank closings or to sustain life. As bread lines grew, local governments and private organizations were unable to cope with the relief problem, and the standards of care declined precipitously. A contagion of hunger, want, and fear stalked the land as the nation entered the third winter of distress.

In 1932, the third year AAP (After the Abolition of Poverty), the economic decline continued. National income spiraled downward to 42.5 billion dollars, or less than half of the 1929 figure.²⁴ Unemployment had tripled to 12 million in three years as one out of every four workers in the nation was without a job.²⁵ Wage scales dipped to near starvation levels for many workers. As the number of applicants increased and resources ebbed, the relief program was visibly collapsing. As summer approached, the national mood was changing from the numbness of demoralization to the exasperation of despair. The bonus veterans had been summarily dispersed on Anacostia Flats. A Democratic Congress was wrangling inconclusively with

²³William J. Schultz and M. R. Caine, Financial Development of the United States, (New York: Prentice-Hall Inc., 1937), p. 640.

²⁴U. S. Bureau of the Census, Historical Statistics, p. 139.

²⁵Ibid., p. 73.

a Republican President, and the inaction was causing popular bitterness and resentment. There was a growing feeling that the people were being betrayed. The summer atmosphere was charged with danger and alarm. Congressman Hamilton Fish, Jr. announced:

I am trying to provide security for human beings which they are not getting. If we don't give it under the existing system, the people will change the system. Make no mistake about that.²⁶

Popular magazine articles demanded a dictator and martial law. As both the economy and public confidence receded further into the valley of darkness and fear, the crisis was peaking.

Until this point, federal expenditures had remained fairly close to the 3.5 billion dollar mean established during the twenties, although failing revenue had caused a half billion dollar deficit in 1931 which the administration deplored.²⁷ The administration was continuing to adhere to the doctrine that it "must not encroach upon nor permit local communities to abandon that precious possession of local initiative and responsibility by dispensing a national dole."²⁸ However, with anxieties at a fever pitch during the summer months, Congress hurriedly passed and the President signed the Emergency Relief and Construction Act of July, 1932.

²⁶Arthur M. Schlesinger, Jr., The Crisis of the Old Order (Boston: Houghton Mifflin Company, 1957), p. 268.

²⁷U. S. Bureau of the Census, Historical Statistics, p. 711.

²⁸Studenski and Krooss, Financial History of the United States, quoting President Hoover's Annual Message of December, 1931, p. 357.

In addition to authorizing the Reconstruction Finance Corporation, a federal lending agency established in January, 1932, to make interest bearing loans to states for relief, loans to states and municipalities for self-liquidating public works and appropriating federal funds for non self-liquidating public works, the act inaugurated a unique emergency grant-in-aid program for relief and public works. This legislation destroyed the doctrine that individual welfare payments were beyond the scope of federal sovereignty. The dike of constitutionalism was breached and federal aid began to trickle out. The expenditures of the national government soared to \$5 billion and created an annual deficit of 2.9 billion in 1932.²⁹ Accompanying these appropriations came the concept that the economic emergency was adequate reason for the assertion of new federal powers and controls, and a broad government program of relief and convulsionary reform was instigated. Finis had been written to a chapter in American history as the traditional creed disappeared in a void of fear. The revolution had begun.

²⁹U. S. Bureau of the Census, Historical Statistics, p. 711.

CHAPTER V

A LEVIATHAN IN PEACETIME REVOLUTION, WAR AND WARLIKE PEACE;

A SURVEY OF FEDERAL FISCAL ACTIVITIES, 1933-1961

The revolution was philosophical and not civil. As the burden of the nation's economic collapse approached insupportable proportions, the political system extended one final avenue of nonviolent action to the despairing citizenry--the presidential election of 1932. Basically, the platforms of the two major parties did not differ to any marked degree. The Republicans blamed the European financial crisis and a recalcitrant Democratic Congress for the severity of the depression, and renewed their allegiance to the familiar principles successfully espoused in more prosperous times. Similarly, the Democratic Party, while condemning the administration for the economic catastrophe, advocated "drastic reduction of governmental expenditures . . . a federal budget annually balanced . . . a competitive tariff . . . extension of Federal credit to the states"³⁰ Both programs were far from radical. However, as the election campaign unfolded, a fundamental philosophical difference between the two

³⁰"Democratic Platform of 1932," Cormager, Documents of American History, Vol. II, p. 417.

candidates became apparent. While Herbert Hoover, the Republican candidate, stubbornly refused to countenance an extension of federal interference and controls or a large scale national attack to speed economic recovery, his opponent, Franklin D. Roosevelt, the Democratic standard bearer, was proclaiming a new doctrine. This new theory contended that the federal government must assume the task of

. . . administering resources . . . meeting the problem of underconsumption, of adjusting production to consumption, of distributing wealth and products more equitably, of adopting existing economic organization to the service of the people . . . which will bring the scheme of things into balance, even though it may in some measure qualify the freedom of action of individual units.³¹

This was the summons of the New Deal--security through control.

This was a new philosophy of government. As the campaigning Hoover incisively observed

This campaign is more than a contest between two men. It is more than contest between two parties. It is a contest between two philosophies of government.³²

He charged that if the exponent of this new deal were elected federal spending would increase, currency would be inflated, credit would be destroyed, the federal government would enter the power business, the Supreme Court would be undermined and there would be erected a "bureaucracy such as we have never seen in our history,"³³ and concluded that "this

³¹Schesinger, The Crisis of the Old Order, quoting Franklin D. Roosevelt's campaign address delivered in San Francisco on September 23, 1932, pp. 425-426.

³²Ibid., quoting President Hoover's campaign address delivered at Madison Square Garden, New York City, on October 31, 1932, p. 434.

³³Ibid., p. 435.

election is not a mere shift from the ins to the outs. It means deciding the direction our Nation will take over a century to come."³⁴ In spite of this alarming indictment, fear of the existing depression outweighed the possibility of despotic governmental authority and the New Deal scored an impressive victory in the election. At the polls, the federal government was held responsible for the nation's welfare and mandated to assert sufficient national authority to deal with the emergency. Thus were the seeds of authoritarian leviathan government sown in a bed of fear, and the persistence of an emergency psychology during the next three decades saw the ominous prophecy of Hoover come to pass. The era of guardian statism had been launched.

This new regimen came to power under the most momentous of conditions. Domestically, under the weight of blind mass fear, the nation's entire banking system was sinking into insolvency, and the national temper had almost reached the breaking point as even the newly elected savior became a target for an assassin's hate and bullets in February of 1933. Internationally, the forces that would perpetuate the age of crisis were already on the move. Adolph Hitler had been selected to be the new Chancellor of Germany and Japanese aggrandizement had landed on the Asian mainland. The dogma of freedom was under universal attack as calamity and crisis became a way of life and fear a common stain on daily existence. Into these chaotic conditions the disciples of the new order which promised

³⁴Ibid., p. 435.

a federal program adequate to resolve the emergency, brought no comprehensive blueprint of action. The planners lacked a plan and substituted a spirit of experimentation combined with a theory of constitutional growth through economic desperation. Committed to a positive program to restore public confidence and promote recovery, the new administration hurriedly initiated extensive, if patchwork, legislation during the epoch making hundred days and established unprecedented federal controls over banking, finance, labor, agriculture, manufacturing and welfare with a corresponding upward sweep in federal spending and a deferment of the campaign pledge to reduce expenditures and balance the budget.

In promoting recovery, the dominant goal was an increase in prices. If prices could be elevated, wages and profits would rise, private spending would grow, production would increase and so on ad infinitum. To secure a rise in prices, both production and employment had to be stimulated. To achieve such stimulation required money and credit. Therefore, initial efforts emphasized monetary reforms and techniques. The nation's banking system was salvaged, revitalized and made operative. A new currency system with a devalued dollar was evolved. Broader horizons of credit were provided by expanding the activities and resources of the Reconstruction Finance Corporation of 1932, and creating new government institutions of farm and home credit. Banking was centralized and inseparably united with government policy while federal controls in the form of the Securities and Exchange Commission brought the capital market under government regulation.

After the country's finances had been reorganized to provide monitored money resources to increase production, this productive effort had to be regulated in order to insure an effective price level. Attempts to exercise this control over both industrial and agricultural production resulted in two revolutionary pieces of legislation. The Agricultural Adjustment Act of 1933 utilized federal subsidies and taxes to regulate farm production. The National Industrial Recovery Act of 1933 invoked voluntary codes of competition which had the force of law to cartelize American industry. Both of these laws ignored the doctrine of economic freedom and the traditional powers of the federal government in the area of taxation and commerce. Eventually, both laws were declared unconstitutional, but the principles had already taken root and more sophisticated systems were developed to achieve the desired objectives. After the production segment of the economy had been readied for recovery, the next step was to prime the pump by increasing government expenditures and stimulating the spending of the consumer. Therefore, the Federal government proceeded to dispense this purchasing power in both work relief and direct relief disbursements through the facilities of a Civil Works, Public Works and Works Progress Administrations, the Tennessee Valley Authority and a Federal Emergency Relief Administration, all created between 1933 and 1935. Broadly, this was the theory of recovery.

Unfortunately, by the end of the first New Deal Administration, satisfactory recovery had not been achieved. Indeed, the new programs had registered a small measure of improvement in economic conditions. Both national income and employment had risen slightly, although the figures

remained well below even those for the depression year of 1931. But the cost of these achievements was staggering in terms of the traditional creed, as well as dollars. Laws had been enacted, government agencies created and federal funds expended in a manner which constituted a more sweeping assertion of federal authority over the nation's economic and social life than had ever been envisioned for the republic. Wages were supported. Hours were controlled. Production was regulated. Monetary policy and banking were federally sponsored. Millions of people subsisted on a federal dole. Incomes of the employed were compulsorily taxed for unemployment and old age benefits. The sale of securities came under federal domination. Labor-management relations were falling increasingly under federal influence. Government corporations were engaged in areas of private enterprise. This brief recitation is merely selective.

The extent to which federal power was enlarged defies definitive presentation, and consequently, the money costs created a more radical imbalance in federal finances than that which characterized the depression. Expenditures mounted from 4.6 billion dollars in 1933 to more than 9 billion in 1936.³⁵ Although new and more progressive tax levies were imposed, revenues could not be kept apace of these drastic increases and more than 13 billion dollars was added to the federal debt during this period.³⁶ Deficit financing was becoming a national institution. In order to soften unfavorable popular reaction to the growing deficit, the administration

³⁵U. S. Bureau of the Census, Historical Statistics, p. 711.

³⁶Ibid.

conveniently separated financial statements into general expenditures, which could be satisfied by available revenues, and emergency spending that would be covered by borrowing, at least temporarily. Not only was deficit financing expedient, a rationale was at hand in the revolutionary compensatory fiscal theory which presented logical arguments to support the use of government taxes and expenditures to regulate the state of the economy. The tentacles of a sprawling leviathan federal government were being reasoned into areas of sovereignty previously entrusted to the states or to no government at all.

What was the public view of these developments? By 1936, in the face of continuing depression, the assumption by the federal government of responsibility for virtually all the important phases of the entire national economy, production, labor, unemployment, social security, money and banking, housing and public work, and the attendant costs, had been accepted as inevitable by a docile populace whose faith and confidence had been immeasurably stunned by the furious impact and prolonged nature of the economic collapse. The election of that year, which can be construed as a national referendum on the new philosophy, stamped an overwhelming popular endorsement on the new doctrine of state planning to assure the welfare and progress of the total social order. The revolution in guardian statism was politically complete.

The second New Deal administration, from 1937 until 1940, when the commencement of war preparations invigorated the economy, ended concern for recovery, and temporarily obscured the effects of the new philosophy, consisted basically of a continuation, on a broader scale, of the policies inaugurated before the election of 1936. The grand initiatives of the

hundred days had been exhausted. The fractionally recovered economy languished in the doldrums of stagnation and was subjected to recurring recessions. There was increasing use of government resources to blunt the effect of these lapses, as well as to inspire an upward trend. Annual federal expenditures during the period fluctuated between 7.5 and 9 billion dollars, while the New Deal deficit doubled to over 26 billion dollars.³⁷ The economy failed to respond. But while the administration was stalemated in its efforts to achieve economic revitalization, it was realizing greater success in the relentless legal assault upon the crumbling traditional creed. By the fall of 1939, the new philosophy of guardian statism had been written into the bedrock of constitutional law. Decision after decision by a reformed Supreme Court erected a body of precedents legalizing the philosophical revolution and consolidating its political gains, despite the fact that its major objective of recovery remained basically unaccomplished. However, before the validity of the new philosophy could be retested before an electorate who were becoming acclimated to prolonged economic distress, a new crisis loomed on the national horizon--a world war.

The war in Europe resolved a domestic problem only to replace it with an international one. Initially, requirements for arms and materials of war beneficially tapped the vast unused plant capacity, the unemployed labor reserve, and the reservoir of capital funds which had accumulated in the United States during almost ten years of economic collapse. But as

³⁷Ibid.

the fortunes of war began to flow heavily against the democracies, it became apparent that the economic crisis had been remedied by a situation that was "most vitally dangerous to American neutrality, American security and American peace."³⁸ As the Wehrmacht inundated France and the low countries in 1940, a new fear was born and the United States began to prepare for war. There is no need to recount the details of the next five years. The same totalitarian pressures which marked the effort of 1917 were unleashed in a repeat performance during World War II, but on a larger scale. Despite the lack of the idealistic goals of a Wilsonian Utopia, a preconditioned nation reacted to the surprise of Pearl Harbor like Pavlov's canines. Wartime controls over the economy, such as price ceilings, rationing, and priorities, were quickly added to the already extensive regulation of the New Deal. Innumerable emergency offices, commissions, and bureaus were established and federal power continued to grow under the impetus of military necessity. Federal expenditures climbed astronomically from 9 billion dollars in 1940, to 14 billion in 1941, 34 billion in 1942, 80 billion in 1943, 96 billion in 1944, and topped the 100 billion mark in 1945, the year of victory.³⁹

While war expenditures increased to amounts that hardly seemed humanly possible, taxes grew more extensive and progressive as revenues climbed from 5 billion dollars to 45 billion, and the national debt rose

³⁸Studenski and Krooss, Financial History of the United States, quoting President Roosevelt, p. 437.

³⁹U. S. Bureau of the Census, Historical Statistics, p. 711.

from 43 billion dollars in 1940 to exceed 250 billion at the end of the war.⁴⁰ This almost incomprehensible expansion in federal fiscal activities, attributable to the demands of wartime circumstances and national safety, was accepted as a temporary expedient and expected to recede with the cessation of hostilities. However, the vast changes wrought in the national character by crisis of the depression and World War II resulted in a postwar period that continued to be fraught with uncertainty and insecurity. Domestically, the experiences of the depression perpetuated a constant fear of unemployment and deflation. The nation sublimated the last vestiges of an opportunity to revive the traditional creed to the paramount objective of a quest for security and the popular belief that leadership in the attainment of this goal must come from the federal government which must

. . . use all practicable means . . . with the assistance and cooperation of industry, agriculture, labor and state and local governments, to coordinate and utilize all its plans, functions and resources for the purpose of creating and maintaining . . . conditions under which there will be afforded useful employment opportunities . . . and to promote maximum employment, production and purchasing power.⁴¹

To support this policy declaration, Truman's Fair Deal, a less spectacular form of the New Deal, invoked many of the policies so prevalent during the depression. The economy was wistfully reconverted to a peacetime basis by continuous substantial governmental spending. Wages and prices were artificially supported. There was little, if any, postwar relaxation of controls during succeeding administrations, regardless of party, as the

⁴⁰Ibid.

⁴¹U. S. Congress, Employment Act of 1946, Public Law 304, 79th Congress, p. 1.

federal government increasingly regulated, organized, and coordinated the economic and social life of the nation in order to provide intentional direction to the economy and insure continued prosperity. The government plan was emerging as the instrument of progress and the concept of constitutional democracy degenerated under forcible adjustment to a comprehensive pattern of public planning and control designed to guarantee the welfare of the nation. Guardian statism was approaching its zenith as individual initiative and responsibility was conceived in smaller and smaller dimensions.

During the immediate postwar period of 1946 to 1950, despite the fact that the nation unrealistically wished peace into existence and drastically dismantled the military machine, the increased reliance on leviathan authoritarian government maintained annual federal expenditures at 40 billion dollars, a figure almost five times greater than the prewar level.⁴² An indication of the enlarged role of the government is the ratio of total expenditures to the national income. During this postwar period of supposed peace and prosperity, federal spending instead of representing a small fraction, averaged near 20 per cent of the national income, and instead of declining, as time passed, it showed a distinct tendency to rise due to the necessity of maintaining a continuous rate of economic growth. Reinforcing this trend toward increasing domination of domestic affairs by the federal government was the evolution of an international atmosphere

⁴²U. S. Bureau of the Census, Historical Statistics, p. 711.

heavily clouded with anxiety and insecurity.

As the iron curtain enclosed larger and larger areas in Europe and Asia and the grimness of the cold war became a recognized reality, the nation was increasingly aware of and concerned with the serious ideological cleavage between communism and capitalism. In 1950, the outbreak of the Korean War suddenly and painfully inflicted the true state of international affairs upon the public mind. The world was split into two camps with irreconcilable philosophies, and the United States was the power around which the West was aligned. As it became apparent that the Russia-centered camp was achieving weapons parity with the West, the national sense of security which characterized the initial postwar years vanished to be replaced by the fear of a nuclear war. International crisis and insecurity strengthened pressures for increased defense expenditures and the attendant controls inherent in any large scale arms and defense program. During the last decade federal spending for defense has quadrupled from 12 billion in 1950, to approximately 50 billion proposed for the fiscal year 1963.⁴³

Under the influence of steadily mounting world tension and the increased complexity and cost of modern weaponry, defense expenditures now exceed the total of federal spending ten years ago and there is little, if any, opposition to any increase regardless of purpose. A large segment of the nation's industrial base has become virtually dependent upon government expenditures for mere existence, and government industrial controls have

⁴³Ibid., p. 719.

immeasurably expanded in the interests of efficiency, maintenance of productive capacity, and profit limitation. International crisis and the suicidal nature of modern warfare have forged a garrison psychology which fosters the limitless expansion and centralization of the powers of the federal government to assure survival.

Since the end of World War II, continued anxiety about personal security and the fear of total war have provided powerful impetus to the philosophy of guardian statism. Each year more and more human activity has been regimented through central administration by the federal government. This thrust is amply evidenced by federal financial operations which include a budget that is slowly approaching the wartime record of 100 billion dollars a year, a tax policy which has the potential of extorting 95 per cent of an individual's income and a debt which is close to passing the 300 billion dollar mark, while only being managed and not retired. If the international crisis remains unrelieved, and if there is increasing recourse to the government as an agency of social betterment and security, this colossus of a federal government with virtually unlimited power will continue to grow and further invest itself, widely and deeply, in the daily life of the individual to the impairment of his freedom. The planning of things will ultimately result in planning of men. This is an inevitable result of the continued irrational repudiation of the American democratic faith. Is this to be the enduring pattern of the future?

CHAPTER VI

BEYOND TOMORROW, A QUIESCENT OR RENASCENT AMERICAN DEMOCRATIC FAITH; A RECAPITULATION, EVALUATION, REFLECTION AND CONCLUSION

Preparation, revolution, consolidation, and exploration were the four successive and distinct stages of our philosophical eclipse. Before the overtures of rational reform sponsored by the forces of progressivism could acclimate the traditional creed to the challenge of a modern industrial society and restrengthen the national faith for a century of crises, the first stage, World War I and its aftermath intervened. Although not truly a crisis of fear, the war effort resulted in a conflict of principles, and the tenets of the American democratic faith were temporarily sacrificed on the altar of universal peace and freedom. This offering was idealistically motivated, and reflected the laudable nature and vitality of a nation and its beliefs. The importance of this first stage of the eclipse does not spring, solely or even primarily, from the event, but from the combination of the manner in which it occurred and the goal which was not achieved. Hurried, unplanned, and immoderate, the expansion and centralization of federal activities and finances were virtually dictatorial, but ideals were obscuring the costs of the noble task. When the ideals evaporated into

disillusionment as the smoke of war cleared and starkly revealed the price of this great crusade for world brotherhood, the sacrifice of the democratic faith was popularly repudiated and a retreat to a moderate, halcyon past was sought.

The forces of reaction were too hasty and too great. In haste, the wartime authoritarian national government was not completely dismembered, nor its powers and fiscal activities totally retracted. In momentum, the reasoned philosophical midcourse established in the progressive era was by-passed for the extreme of an antiquated doctrine of laissez-faire. Thus, the significance of the first stage of the eclipse, World War I and its aftermath, is not only that it provided a rehearsal of New Deal actions, but that popular reaction to the war caused many of the props of government expansion to remain undisturbed and the between-the-acts decade of the twenties to be spent in erecting the economic scenery for a peacetime reenactment of the plot amidst economic catastrophe. This was the preparatory stage.

The mere presence of an economic depression did not render a philosophical revolution inevitable. However, failure to recognize and appreciate the gravity of the situation in its initial phases caused the moderate government measures eventually adopted to affect too little too late. Stress upon stress was permitted to culminate in an economic debacle which completely corroded the national faith, impoverished national hope, and created a fallow of fear which prompted a dissolute disregard for enduring principles and the despairing acceptance of the seductive appeal of welfare

statism, a doctrine that promised the exorcism of fear and want. During the ensuing decade, a nation gripped by a mood of powerless fatalism and lulled by the spell of sugar-coated programs of direct relief and make work, authorized the government to acquire vast powers, rigidly to control, and partially suppress, private enterprise, to redistribute wealth through taxation, to engage in staggering deficit spending, and seriously to breach the protective bulwark of the Constitution. This was the stage of revolution.

Atop of this fear induced internal corruption of the traditional creed, without an interval for rational reappraisal and possible reversal of the statism trend, was imposed the external governmentally expansive and centralizing pressures of another war. Armed conflict among nations has always generated authoritarian government and the Second World War was not unusual in this respect, except that it was doubly effective because it compounded the growth in the powers of the federal government that had already been instigated by the New Deal. This was the stage of consolidation.

Finally, during the postwar period, under the multiple influence of a depression legacy of fear of unemployment and want, a war conditioned acceptance of government leadership and domination, and international tension and fear of nuclear warfare, the nation acquiesced in the continuance of the enormous taxes, spending and wide government controls of war, as well as the introduction of a whole series of new government interventions designed to insure full employment and continued prosperity. This has been, and continues to be, a stage of expansion and reflects the continued atrophy of the traditional national philosophy.

Constitutionalism, the concept of the limited and defined nature of the national government, has been enervated by the widest possible, and almost fanatical, interpretation of the general welfare clause which has facilitated federal assumption of state powers in such areas as business and labor regulation, and assistance to the aged and unfortunate. Widening this rift in the constitutional barrier is the increasing tendency of the federal government to invoke delegated powers for purposes manifestly alien to the wording and intent of the supreme law of the land. Thus, the authority to tax is no longer utilized solely as a source of revenue, but is employed to enforce a redistribution of wealth and the control of segments of the economy which are not susceptible to more normal powers of the federal government. Federalism has been reduced to a facade of formality, as the states have been trapped between the powerful pincers of federal taxation and grants-in-aid, and relegated to the status of agents of the national government. Individual initiative, responsibility, and dignity have been crushed beneath the transfer of staggering sums, totaling millions of dollars in a period of prosperity, for welfare and relief. Individual economic freedom has been drastically proscribed. The farmer's crops acreage and income have been subjected to the whims of government. Businessmen are strangling in a maze of bureaucratic regulation. Workers are dominated by union organizations that flourish under federal protection. Government inspectors, auditors, assessors, investigators and corporations constantly interfere in almost all phases of private endeavor. Even the vital tenet of consent of the governed has been strained in the evolution

of leviathan government.

The tremendous growth in independent regulatory commissions with limited responsibility to the Congress has vested untold power in the executive, and the operations of this fourth branch of government are in defiance of the doctrine of a separation of powers. In addition, there exists in the legislative sphere a more direct infringement upon popular sovereignty. Deficit financing permits the pursuit of questionable policies and programs without the unpleasant task of presenting schemes of taxation for their support to the electorate for decision. Thus, provoked by a treason of fear, the impact of the massive growth in federal activities and finances upon the traditional creed has been, and continues to be, devastating, as the federal government seeks additional authority in the areas of transportation, urban affairs, education, and health insurance, and the executive requests further discretionary power in the field of taxation and tariffs.

Although, thus far, personal liberty has not been subject to the depredations of authoritarian government, the future implications of guardian statism have been prophetically summarized by an astute observer. The political threat of leviathan government, empowered to plan the economic well being of a people, is that

. . . it provides for their security, forseees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances: what remains, but to spare them all the care of thinking and all the trouble of living? After having thus successively taken each member of the community in its powerful grasp and fashioned him at will, the supreme power

then extends its arm over the whole community. It covers the surface of society with a network of small, complicated rules, minute and uniform, through which the more original minds and the most energetic characters cannot penetrate, to rise above the crowd. The will of man is not shattered, but softened, bent, and guided; men are seldom forced by it to act, but they are constantly restrained from acting. Such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupifies a people, till each nation is reduced to nothing better than a flock of timid and industrious animals, of which the government is the shepherd.⁴⁴

This is the pattern of the march to servility which is the cost of an irrational quest for security and safety, a value that may never be fully realized. The ultimate burden of responsibility for the future course of the national philosophy rests upon the people.

Encouragingly, during the past two or three years, a crack of hope has appeared in the national homage of guardian statism--a spreading conservative revival. These forces of the political right, while they harbor a few extremist elements, are essentially moderate and are devoted to a renewed application of the tenets of the American democratic faith in achievement of national objectives, and to an unalterable opposition to further expansion of big government. Significantly, for the future, the strength of this conservative movement is the youth and vigor of its dedicated members more than the volubleness and validity of its arguments. This renaissance of the traditional creed is occurring among that segment of the electorate which is too young to have been subjected to the morally warping influence of the depression, and who are characteristically

⁴⁴Alexis de Tocqueville, Democracy in America, trans. H. Reeve (New York: Pratt, Woodford and Company, 1848), p. 339.

confident, optimistic and eager to assert themselves as individuals. They have the spirit of their 19th century ancestors and desire a freedom of choice in selecting their future.

While it would be patiently naive and fallacious to attribute to this faint conservative stirring the power to effect an immediate, spectacular reversal in the eclipse of the traditional national philosophy, it is quite possible that this rebirth of faith may parallel the moral of a fable of ancient Athens in which

. . . one evening some friends were learnedly pondering the future of the gods when a street riot called away Gallio, one of the company, to discharge his duties as Roman proconsul. Returning after a brief absence, he shrugged off the affair as a silly brawl between two groups of Hebrews about an uncouth fellow, a certain Paul or Saul of Tarsus, who proclaiming the doctrines of a new Messiah, whose name Gallio had forgotten. Lets not waste our breath over the mouthings of this Jew weaver of Tarsus, he said, for not from such a source can we ever learn what deity will replace Jupiter.⁴⁵

While this analogy may appear tenuous, it is at least, a bright ray of hope for the future. Only time can provide the answer.

More realistically, the Conservative movement can revive in the national conscience a spirit of trusteeship for the remnants of the traditional creed, so that all future policies and programs of the federal government will be appraised with a least backward glance at the ideals of the American democratic faith, and the total cost, material and ideological, evaluated before popular approval is granted. Only in this manner can the nation successfully transmit to posterity the battered remains of its inherited liberties and traditional creed.

⁴⁵Arthur M. Schlesinger, Paths to the Present, (New York: MacMillan and Company, 1949), p. 277.

BIBLIOGRAPHY

Public Documents

- U. S. Bureau of the Census, Historical Statistics of the United States from Colonial Times 'Till 1957, Washington, D. C.: Government Printing Office, 1960.
- U. S. Congress, Employment Act of 1946. Public Law 304, 79th Congress.

Books

- Allen, Fredrick L. Only Yesterday. New York: Harper and Brothers, 1931.
- _____. The Big Change; America Transforms Itself, 1900-1950. New York: Harper and Brothers, 1952.
- Baldwin, Leland D. Recent American History. Rensselaer, N. Y.: Richard R. Smith Publisher Inc., 1954.
- Beard, Charles A. and Mary R. The Rise of American Civilization. 2 volumes. New York: MacMillan and Company, 1931.
- Burns, Edward M. The American Idea of Mission. New Brunswick, N. J.: Rutgers University Press, 1951.
- Burns, J. M. and Peltason, J. W. Government by the People. New York: Prentice-Hall Inc., 1952.
- Bryce, James. Modern Democracies. New York: MacMillan and Company, 1921.
- Carr, Robert K. and Others. American Democracy in Theory and Practice. New York: Rinehart and Company, Inc., 1956.
- Commager, Henry Steele (ed). Documents of American History. 5th edition. 2 volumes. New York: Appleton-Century-Crafts, Inc., 1949.
- Commings, Saxe and Linscott, Robert N. (ed). Man and the State: The Political Philosophers. New York: Random House, 1947.

- Curti, Merle. The Growth of American Thought. 2d edition. New York: Harper and Brothers, 1959.
- Degler, Carl N. Out of Our Past. New York: Harper and Brothers, 1959.
- Fabricant, Solomon. The Trend of Government Activity in the United States Since 1900. New York: National Bureau of Economic Research Inc., 1952.
- Faulkner, Harold U. American Political and Social History. 7th edition. New York: Appleton-Century-Crafts, Inc., 1957.
- Flynn, John T. As We Go Marching. Garden City, N. Y.: Double Day, Doran and Company, Inc., 1944.
- _____. The Decline of the American Republic. New York: Devin-Adair Company, 1955.
- _____. The Road Ahead. New York: Devin-Adair Company, 1949.
- Gabriel, Ralph H. The Course of American Democratic Thought. New York: The Ronald Press Company, 1940.
- Hacker, Louis M. The Shaping of the American Tradition. New York: Columbia University Press, 1947.
- Handlin, Oscar. The American People in the Twentieth Century. Cambridge: Harvard University Press, 1954.
- Hofstadter, Richard. The American Political Tradition. New York: Alfred A. Knopf, 1948.
- Kelly, Alfred H. and Harbison, Winfred A. The American Constitution. New York: W. W. Norton and Company, 1948.
- Kimmel, Lewis H. Federal Budget and Fiscal Policy, 1789-1958. Washington, D. C.: The Brookings Institution, 1948.
- Laski, Harold J. The American Democracy. New York: The Viking Press, 1948.
- Laswell, Harold D. National Security and Individual Freedom. New York: McGraw-Hill Book Company, 1950.
- Lavelle, Max. The Foundations of American Civilization. New York: Henry Holt and Company, 1942.
- Lerner, Max. America As A Civilization. New York: Simon and Schuster, 1957.
- Lindholm, Richard W. Public Finance and Fiscal Policy. New York: Pittman Publishing Corp., 1950.

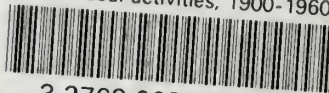
- London, Kurt. Backgrounds of Conflict. New York: MacMillan and Company, 1945.
- Moley, Raymond. How to Keep Our Liberty. New York: Alfred A. Knopf, 1952.
- Morison, Samuel E. and Commager, Henry S. The Growth of the American Republic. 2 volumes. New York: oxford University Press, 1942.
- Morris, Lloyd. Postscript to Yesterday. New York: Random House, 1947.
- Muzzey, David S. The United States of America. Boston: Ginn and Company, 1937.
- Nash, Bradley D. and Lynde, Cornelius. A Hook in Leviathan. New York: MacMillan and Company, 1950.
- Padover, Saul K. The Genius of America. New York: McGraw-Hill Book Company, Inc., 1960.
- Parkes, Henry B. Recent America. New York: Thomas Y. Crowell Company, 1947.
- Parrington, Vernon L. Main Currents in American Thought. 3 volumes. New York: Harcourt, Brace and Company, 1930.
- Poole, Kenyon E. (ed). Fiscal Policies and the American Economy. New York: Prentice-Hall, Inc., 1951.
- Robinson, Edgar E. The New United States. California: Stanford University Press, 1946.
- Schesinger, Arthur M. Paths to the Present. New York: MacMillan and Company, 1949.
- _____. Political and Social Growth of the American People, 1865-1940. New York: MacMillan and Company, 1941.
- Schesinger, Arthur M., Jr. The Crisis of the Old Order. Boston: Houghton Mifflin Company, 1957.
- Shultz, William J. and Caine, M. R. Financial Development of the United States. New York: Prentice-Hall Inc., 1937.
- Studenski, Paul and Krooss, Herman E. Financial History of the United States. New York: McGraw-Hill Book Company, Inc., 1952.
- Tocqueville, Alexis de. Democracy in America. New York: Pratt, Woodford and Company, 1848.
- Wish, Harvey. Contemporary America. 3rd edition. New York: Harper and Brothers, 1961.





thesL997

Federal fiscal activities, 1900-1960 :



3 2768 002 12453 9

DUDLEY KNOX LIBRARY